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Programme budget for the biennium 2012-2013

Revised estimates relating to section 34 of the programme budget for the biennium 2012-2013 for remediation work in the aftermath of storm Sandy

Report of the Secretary-General*

Summary

On Monday, 29 October 2012, the Secretariat was hit by storm Sandy, causing a disruption in operations that lasted several days. The severity of the storm and the resulting flooding notwithstanding, material damage to the Secretariat was relatively contained. The core infrastructure of the Secretariat premises was assessed as being intact, but significant damage to plants and equipment was sustained on the third and lower levels of the basement, most notably to the chiller plant, operations-related spaces and printing facilities.

The United Nations has robust coverage under two complementary insurance policies. Cognizant of the need to optimize recovery under its insurance programmes, the Secretariat is working closely with the insurance company to expedite matters. Nevertheless, its best efforts notwithstanding, the claims process will be complex and protracted. Even allowing for interim insurance claim settlements, most recoveries under the insurance policies will be received in the biennium 2014-2015, whereas expenditure for remediation activities will be incurred predominantly in 2013.

The present report sets out the proposals of the Secretary-General to meet cash flow challenges for the United Nations programme budget for the biennium 2012-2013 pending completion of recoveries from the insurers.

* The report is submitted at the present time because of the need to undertake urgent capital improvements and to bring to the attention of Member States the cash flow challenges arising from the significant level of insurance claims and the complexity of the insurance recovery process.

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With regard to the damages sustained, the Secretariat has identified insurance claims of up to $148,921,300 to be submitted, of which $137,851,400 (93 per cent) can be expected to be recovered in due course. Pending the outcome of the insurance claim recovery process, it is probable that some damages suffered during the storm will not be recoverable from insurance. Accordingly, further resources, provisionally estimated at $11,069,900, are also presented herein, but are not being requested at this time.

In addition to the remediation measures to be carried out, the storm has highlighted the need to mitigate the Organization's exposure to similar damage to critical infrastructure, including the chiller plant, from flooding in the basement levels. Although not covered by insurance, the Secretary-General considers it prudent to implement improvements in the basement levels to ameliorate risk in the event of another flood. This is especially important as the terms of the renewed global property insurance policy include a significant reduction in the level of available insurance coverage for flood damage in the New York area.

Accordingly, the present report includes a request for additional resources estimated at $6,063,400 for the biennium 2012-2013 in respect of improvements in the basement levels.

I. Background

1. In October 2012, storm Sandy caused unprecedented damage in the Caribbean and parts of the east coast of the United States of America. The severity of the storm and the resulting flooding notwithstanding, material damage to the Secretariat was relatively contained as a result of effective precautionary measures. The core infrastructure of the Headquarters premises was assessed as being intact. Externally, only the arrival tent at the delegates' entrance and the plastic roof cover on the General Assembly dome were destroyed. No impact is expected on the overall schedule for completion of the capital master plan.

2. The most serious damage was due to the effects of flooding, with water levels reaching 14 feet above the normal level. The basement was flooded up to the third level, including chiller rooms, garage parking and offices such as receiving and inspection, facilities management, transport, mail, the Publishing Section of the Department for General Assembly and Conference Management and the locker and training rooms of the Department of Safety and Security.

3. An after-action review, commissioned by the Secretary-General and led by the Chef de Cabinet, was completed in December 2012. One of the recommendations was that the Department of Management should assess the possible relocation of offices and equipment to other locations from the third level of the basement. A working group was convened to explore possible options in that regard. The group comprised representatives of the Office of Central Support Services, the Office of the Capital Master Plan, the Office of Information and Communications Technology, the Department for General Assembly and Conference Management and the Department of Safety and Security.

4. An analysis of the damaged equipment and infrastructure was also conducted by the Engineer of Record in coordination with the Office of the Capital Master Plan and the Facilities Management Service of the Office of Central Support Services. The exercise considered requirements for repairs in kind, in addition to potential improvements as a precaution to minimize damage to infrastructure and operational functions should a similar incident occur in the future.

United Nations insurance programmes

5. The United Nations has robust coverage under two complementary insurance policies: its global property insurance for buildings managed by the Facilities Management Service (i.e. not related to the capital master plan construction) and its builders' risk insurance, which covers buildings and building materials under construction during the capital master plan.[1] It is imperative to optimize recovery under these two insurance programmes to obtain the most cost-efficient results for the Organization. The insurance company fully supports efforts leading to a fast cleaning and recovery process in order to mitigate damage caused by or resulting from the flooding. Nonetheless, the insurance claims process will be complex and long.

6. The total amount of insurance coverage for flood damage is $100 million under the builders' risk insurance and $50 million under the global property

[1] The national flood insurance policy provides additional coverage that is expected to cover the deductibles under the two main policies.

insurance. The insurer will pay for the amount that it deems reasonable for a like-for-like replacement. As a rule, the insurer will not pay for any enhancements above those that it deems mandatory. The insurer may, however, cover the costs of an enhancement beyond the original state in cases in which an enhancement is legally required to ensure compliance with a change in building code.

7. Although a detailed evaluation of prospective claims submitted by the affected departments and offices has yet to be finalized, the principal costs have been identified by the Secretariat and are summarized in table 1.

Table 1
Estimated total requirements as a result of storm Sandy
(Thousands of United States dollars)

	Estimated resource requirements
Under builders' risk insurance (coverage $100 million)	87 851.4
Under global property insurance (coverage $50 million)	61 069.9
Mitigation measures	6 063.4
Total	**154 984.7**

8. The global property insurance policy was renewed on 15 February 2013 under similar terms and conditions, except for the coverage of flood damages in the New York area. The deductible for such damages has increased to $2.5 million and the sublimit (maximum insured value) for floods has decreased from $50 million to $20 million above the deductible amount.

9. A contract for forensic accounting services is being awarded following a comprehensive procurement process, with the selected vendor expected to begin supporting the insurance claims documentation process during the week beginning 18 February 2013. Procuring such services is recommended as an industry standard for claims of such a magnitude in order to expedite and professionalize the claims process. The cost of the services is claimable under the insurance policies.

II. Proposed remediation activities and mitigation measures

Remediation activities under builders' risk insurance

10. The builders' risk insurance provides coverage for those areas of the compound that had not yet been handed over from the Office of the Capital Master Plan to the Facilities Management Service at the time of the storm. The Secretariat's preliminary estimate of claims to be submitted under that insurance amounts to $87,851,400, as reflected in table 2.

Table 2
Preliminary estimate of claims under builders' risk insurance
(Thousands of United States dollars)

	Estimated resource requirements
Capital master plan	81 708.5
Facilities Management Service/Office of Central Support Services	916.9
Clean-up and dehumidification costs	4 824.0
Forensic accounting costs	402.0
Total	**87 851.4**

11. As shown in table 2, the total amount of claims is $87,851,400. The primary activity relating to this amount will be the recovery work in the basement levels under the management of the Office of the Capital Master Plan ($81,708,500) and the Office of Central Support Services ($916,900), which is forecast to be completed by December 2013. This work includes:

(a) Arrangements for a temporary portable chiller to be located in the service drive;

(b) Evaluation and testing of mechanical equipment to determine the next steps forward;

(c) Engineering design based on those findings, to include refurbishment of elevators and replacement of automatic manual pumps and domestic water pumps;

(d) Procurement of the main chiller plant and modular back-up chiller plant;

(e) Reconstruction on the third level, to include architectural finishes, doors and telecommunication rooms;

(f) Replacement of security panels and devices on the third and fourth levels and service drive;

(g) Replacement of hydraulic and traction elevator systems and controls; cleaning of elevator pits; cleaning and replacement of electrical equipment and motors in the machine rooms; and replacement of elevator doors, frames, cabs and controls affected by flooding.

12. In addition, architectural services are required for an evaluation of walls, doors, flooring and furniture.

13. The claims to be submitted under the builders' risk insurance will also include a portion of the clean-up and dehumidification costs ($4,824,000) and a portion of the cost of forensic accounting services ($402,000). The remaining portion of these costs will be claimed under the global property insurance.

Remediation activities under global property insurance

14. The global property insurance provides coverage for those areas of the compound that were being managed by the Facilities Management Service at the time of the storm. The Secretariat's preliminary estimate of claims to be submitted

under the global property insurance amounts to $61,069,900, as reflected in tables 3a (by cost type) and 3b (by department/office).

Table 3a
Preliminary estimate of claims under global property insurance by cost type
(Thousands of United States dollars)

	Estimated resource requirements
Building	44 853.8
Content	12 802.0
Extra expenses	2 874.8
Labour, forensic accounting and business interruption	539.3
Total	**61 069.9**

15. The primary activity will be the refurbishment of space and infrastructure forming part of the property managed by the Facilities Management Service, estimated at $44,853,800. This refurbishment will include:

(a) Evaluation and testing of mechanical equipment to determine next steps forward;

(b) Engineering design for infrastructure based on those findings and investigation of damage conducted to date;

(c) Replacement of security panels and devices at the third level of the basement and service drive;

(d) Replacement of hydraulic and traction elevator systems and controls; cleaning of elevator pits; cleaning and replacement of electrical equipment and motors in the machine rooms; and replacement of elevator doors, frames, cabs and controls affected by flooding.

16. In addition, architectural services are required for an evaluation of walls, doors, flooring and furniture.

17. Extra expenses ($2,874,800) have also been included for activities such as clean-up and dehumidification. The remaining claims to be submitted under the global property insurance will also include content ($12,802,000) and a portion of the cost of forensic accounting services, labour and business interruption costs ($539,300).

Table 3b
Preliminary estimate of claims under global property insurance by department/office
(Thousands of United States dollars)

	Estimated resource requirements
Facilities and Commercial Services Division of the Office of Central Support Services	53 742.1
Office of Information and Communications Technology	3 369.5
Department for General Assembly and Conference Management	1 852.9
Department of Safety and Security	1 251.1
MSD/OHRM, DPKO/DFS, DPI, DPA, EOSG	656.3
Insurance and Disbursement Service of the Accounts Division (forensic accounting costs)	198.0
Total	**61 069.9**

Abbreviations: MSD/OHRM, Medical Services Division of the Office of Human Resources Management; DPKO/DFS, Department of Peacekeeping Operations/Department of Field Support; DPI, Department of Public Information; DPA, Department of Political Affairs; EOSG, Executive Office of the Secretary-General.

18. The claims to be submitted under the global property insurance are shown in table 3b. Most relate to infrastructure works managed by the Office of Central Support Services. In addition, there is information technology equipment to be replaced ($3,369,500). The estimated claims for the Department for General Assembly and Conference Management ($1,852,900) represent the residual value of damaged printing equipment. Discussions on the future of the printing operation are continuing.

Mitigation measures

19. The after-action review recommended that specific steps should be taken during the recovery process to reduce the vulnerability of Headquarters to future flooding events. Those remedies, which are not covered by the United Nations insurance programmes, are:

(a) Waterproofing of critical electrical rooms on the third level of the basement, without relocation;

(b) Relocation of the electrical rooms from the fourth and fifth levels of the basement to the third level of the basement;

(c) Relocation of automatic fire pumps from the third level of the basement to the second level of the basement.

20. It would be prudent to carry out these remedial works now. Furthermore, the global property insurance policy, as renewed in 2013, provides reduced coverage of only $20 million after the deductible, compared with the previous coverage of $50 million. Consequently, the United Nations will bear the risk of significant (uninsurable) financial exposure if it does not take these measures now. The estimated resource requirements for the measures are estimated in the amount of $6,063,400, as analysed in table 4.

Table 4
Mitigation measures at Headquarters
(Thousands of United States dollars)

Activity	*Estimated resource requirements*
Waterproofing of critical electrical rooms in the third level of the basement	1 079.1
Relocation of the electrical rooms from the fourth and fifth levels of the basement	3 537.2
Relocation of the automatic fire pumps	1 447.1
Total	**6 063.4**

III. Funding considerations in the short to medium term

21. The Secretariat has held extensive consultations with insurers and their loss adjusters and discussions with the Office of the Capital Master Plan to analyse the timing of commitments with contractors and subsequent payment of invoices.

22. The cash flow timeline of the combined requirements ($154,984,700) for aggregate damages suffered ($148,921,300) and improvements to the third level of the basement ($6,063,400) is set out in table 5.

Table 5
Cash flow requirements timeline
(Thousands of United States dollars)

	Estimated resource requirements	
	2012-2013	*2014-2015*
January to March 2013	13 638.7	–
April to June 2013	33 306.5	–
July to September 2013	45 598.0	–
October to December 2013	42 089.8	–
January to March 2014	–	20 351.7
Total	**134 633.0**	**20 351.7**

23. The cash outlay until the end of September 2013 is projected at $92,543,200, increasing to $134,633,000 by the end of 2013, with a further $20,351,700 of projected disbursements during the first quarter of 2014. Against these cash flow requirements, an interim claim settlement in the amount of $2.5 million has been received to facilitate the clean-up process in the immediate aftermath of the storm. The Secretariat is in discussions with the insurers to obtain another interim settlement in the amount of $15 million in the next month and further claim settlements are expected during the second half of 2013, although the quantum and timing of these later settlements are uncertain at this stage.

24. In view of that uncertainty, the Secretary-General considers it prudent to request authority to enter into commitments up to the amount of $146,421,300, representing the aggregate damages less the interim settlement already received from the insurers ($148,921,300 less $2,500,000).

Cash flow funding

25. The Secretariat has considered the available sources of cash flow in the short to medium term and concluded that the best option available to the Organization is the use of the Working Capital Fund as a bridging mechanism.

26. The Working Capital Fund was established by the General Assembly in its resolution 80 (I) for the purpose of providing advances necessary to finance budgetary appropriations, pending the receipt of contributions from Member States. The Assembly determines the level at which the Fund is to be maintained for the financial period and the purpose for which advances may be made. The level of the Fund financed from Member State advances is currently set at $150 million.

27. Historically, the Secretary-General has been authorized by the General Assembly to advance from the Fund such sums as may be necessary to finance unforeseen and extraordinary expenses pending appropriation action by the Assembly; finance payments of advance insurance premiums where the period of insurance extends beyond the end of the biennium in which payment is made; and finance miscellaneous self-liquidating activities.[2]

28. In the light of the self-liquidating nature of what would effectively be a medium-term advance from the Working Capital Fund into the biennium 2014-2015, it is considered reasonable to assume that there will be no need to call upon Member States to convert the exercised commitment authority into an appropriation and assessment on Member States at a future date, to the extent of the estimated recoverable damages in the amount of $137,851,400. Nonetheless, this cannot be assured until the insurance recovery process is much further advanced and nearing its conclusion, which is anticipated no earlier than 2014.

29. The balance of non-recoverable damages and improvements is discussed in section IV.

Managing insurance recoveries and insurance claims

30. Given the magnitude of the resource requirements and the multi-year nature of the activities relating to the remediation work in response to the storm, it is proposed that a separate and distinct multi-year special account be established for insurance recovery and expenditures relating to the damage in the aftermath of the storm, in accordance with the provisions of regulations 4.13 and 4.14 and rule 104.3 of the Financial Regulations and Rules of the United Nations.

[2] For example, such uses were approved by the General Assembly in paragraph 5 of its resolution 66/250.

IV. Revised estimates relating to the programme budget for the biennium 2012-2013 and future requirements

Basement improvements to safeguard against flooding

31. With regard to the improvements in the basement levels described in section II, while they are necessary, preventive actions, they are not claimable under the United Nations insurance programmes. The resource requirements to carry out these proposed improvements would result in revised estimates relating to the programme budget for the biennium 2012-2013, as shown in table 6.

Table 6
Requirements for the biennium 2012-2013 by object of expenditure
(Thousands of United States dollars)

Section 34, Construction, alteration, improvement and major maintenance	*2012-2013 revised appropriation*	*Present report*	*2012-2013 estimate*
Headquarters			
1. Alterations and improvements	12 092.0	6 063.4[a]	18 155.4
2. Major maintenance	12 374.3	–	12 374.3
Total	**24 466.3**	**6 063.4**	**30 529.7**

[a] Contractual services.

Non-recoverable insurance claims: future requirements

32. As described in table 3b, the aggregate of potential insurance claims currently identified by departments and offices ($61,069,924) exceeds the available insurance coverage for flooding under the global property insurance policy ($50 million) by an estimated $11,069,900.

33. The Secretariat is reviewing all potential insurance claims critically with a view to maintaining those most viable and important in terms of their impact upon the operations of the Organization. This exercise is continuing and firm decisions have yet to be taken. Consequently, although the aggregate claims have been identified, the provisionally estimated shortfall in insurance recoveries cannot currently be apportioned across the submitting departments and offices (and their respective budget sections).

34. In conclusion, subject to the outcome of negotiations with the insurers, as indicated in paragraph 28, further resources provisionally estimated at $11,069,900 could result in such a request at a later date.

V. Conclusions and recommendations

35. **The overall resource requirements arising from the implementation of the proposals contained herein are estimated at $154,984,700. This comprises $137,851,400 for remediation activities, the cost of which will be recovered under the provisions of the United Nations insurance programmes; these requirements are offset by interim settlements received from the insurers at the**

time of preparation of the present report ($2.5 million); a further amount of $6,063,400 of urgent preventive work in the basement levels to ameliorate potential damages in the event of another flood; and preliminary estimates of up to $11,069,900 for content and equipment that may not be reimbursed under the insurance programmes.

36. **The General Assembly is requested:**

(a) **To approve the estimated amount of $6,063,400 requested under the programme budget for the biennium 2012-2013, comprising an increase under section 34 (construction, alteration, improvement and major maintenance);**

(b) **To authorize the Secretary-General to enter into commitments in the biennium 2012-2013 of up to $146,421,300 to enable remediation work, and to request him to report thereon in the context of the second performance report on the programme budget for the biennium 2012-2013, to be submitted towards the end of the main part of the sixty-eighth session of the General Assembly;**

(c) **To note that the costs of the remediation work described in subparagraph (b) can be expected to be reimbursed under the terms of the United Nations insurance policies up to an estimated amount of $135,351,400;**

(d) **To note that, subject to the outcome of insurance recovery efforts and the Secretariat's prioritization of equipment and other content of which replacement is essential, an estimated amount of $11,069,900 may be required in addition to the resources requested in subparagraph (a);**

(e) **To authorize the Secretary-General to use the Working Capital Fund to cover the payments on a cash flow basis in anticipation of future insurance claim settlements;**

(f) **To endorse the proposal of the Secretary-General to establish a multi-year special account for insurance recovery and expenditures relating to damage in the aftermath of storm Sandy.**